



The Real Estate TRENDS

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REAL ESTATE ECONOMISTS, APPRAISERS AND COUNSELORS

REAL ESTATE ACTIVITY

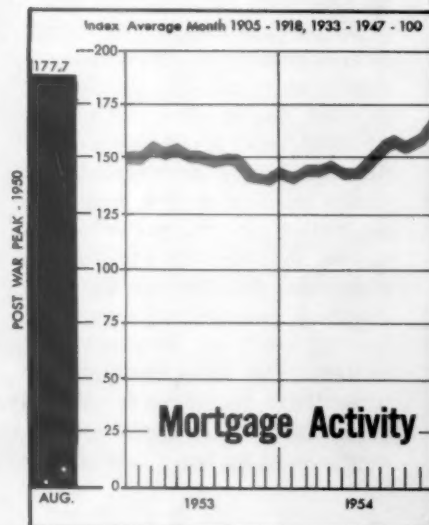
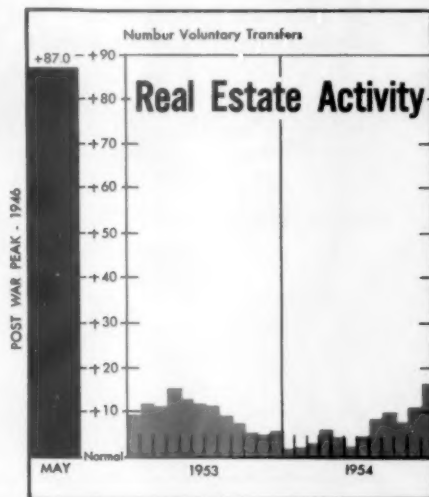
In 1953 and the first half of 1954, activity was nationally at its lowest ebb of the postwar era. In some sections of the country, particularly the Southwest and West Coast, activity dipped below the normal line. However, during the last half of 1954 the national index rose strongly from 2.0 points above normal to 16.6 above normal.

Indications are that national real estate activity will continue to improve during the first part of 1955. The probabilities are that it will be another very satisfactory year, but it will be a year in which the signs should be closely watched.

MORTGAGE ACTIVITY

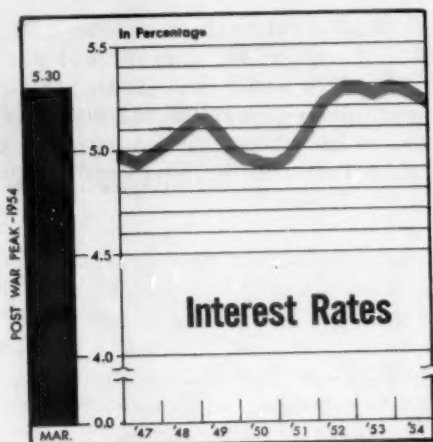
Our national mortgage index (which is based on the relationship between the number of nonfarm mortgages and the number of nonfarm families) showed a steady rise throughout the year. It rose from 144.9 in December 1953 to 171.9 in December 1954, an increase of almost 19%.

While the outlook for mortgage money is now good, there could be a definite tightening of the supply if home building moves past the 1.2 million rate. Remember that optimism is much more prevalent than it was 12 months ago, and that inventory building will require more funds than in 1954. Moreover, the financing of schools, highways, and other public works will probably be heavier this year than last.



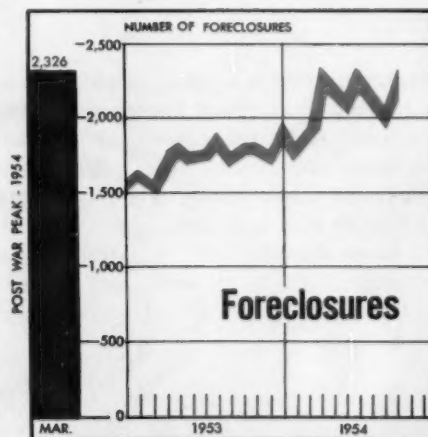
INTEREST RATES

Last year our comments on interest rates were: "The chances are that there will be little change in the average rates, with the possibility of a slow downward drift." We believe that this slow downward drift will soon be reversed and that interest rates will begin to rise slowly.



FORECLOSURES

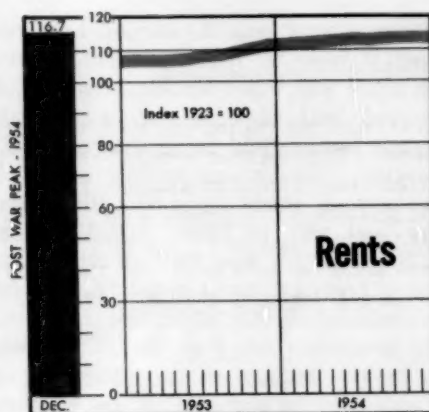
Foreclosures have been so low for so long that to most lenders they are simply unpleasant memories. Although still at a near-record low, there have been rather sharp increases in the last year or so. In 1954, the number ran almost 25% ahead of 1953, and many lenders are going to become better acquainted with foreclosures in the next few years. It requires no particular astuteness to foresee a continued increase in the number of foreclosures. A low (or no) down payment loan is a powerful stimulant to home buying (if such a transaction can be so called), but the resultant thin equities offer little incentive for the buyer to fight through a period of bad luck or hard times in order to keep his home. Foreclosures are on the upswing, and will continue to be for the next several years.



RENTS

In 1952 the national index rose 4.6%, in 1953 it rose 5.3%, and in 1954 it rose 2.1%. This would indicate that the mild rise following the release of Federal rent control has about reached its peak, and that in 1955 rent increases will be lower than in 1954.

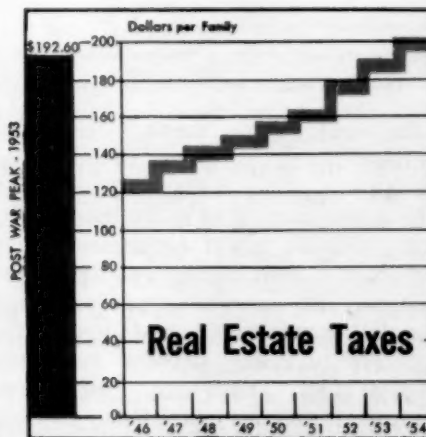
Like all generalizations on real estate, such a statement is subject to variation at the local level. The rental market in Los Angeles, Fort Worth, Memphis, Washington, D. C., Denver, and Tampa is much more a buyer's market than is the market in St. Louis, Cincinnati, Chicago, Youngstown, and Detroit. In these last-named cities, the rental market is tight in all types of units except the converted efficiency.



REAL ESTATE TAXES

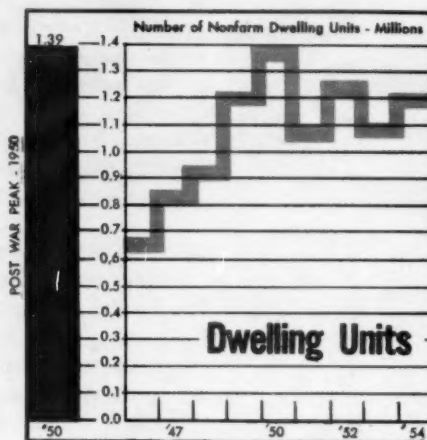
Each year of the postwar period has seen a continuation of the steady increase in the real estate tax load. The present national average tax load per family is \$204.01 (based on surveys of 94 cities), and is up 6% from the 1953 figure. We all know that the continued need for new schools, streets, sewers, and other civic improvements will mean even higher taxes in 1955.

There is one pleasing aspect to this picture, however. In 1945 the real property tax accounted for 60% of general revenue of local governments, but by 1951 this percentage had shrunk to 50%. Therefore, while real estate taxes are increasing, their proportion of the total tax load is in a downward trend.



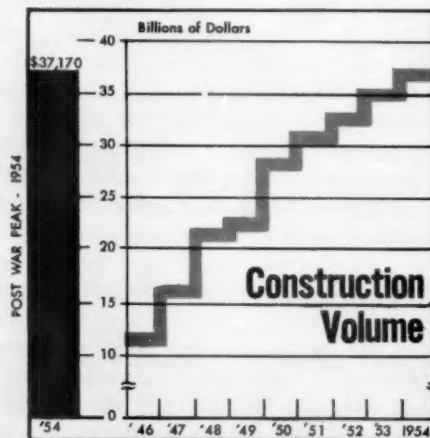
DWELLING UNITS

The past year was the second-best residential year in history, trailing 1950 by some 180,000 starts. However, the second half of 1954 was a good deal closer to the 1950 level than most of us realize. Insofar as private starts are concerned, there were 655,700 made in the last half of 1950, compared with 637,400 in the last half of 1954. Thus the difference was a scant 18,300 units in favor of 1950. About the only obstacle to an all-time high in 1955 appears to be the supply of mortgage money. There may be enough to allow this level of building, but at this time it seems doubtful. A more reasonable estimate would be around 1,200,000 starts.



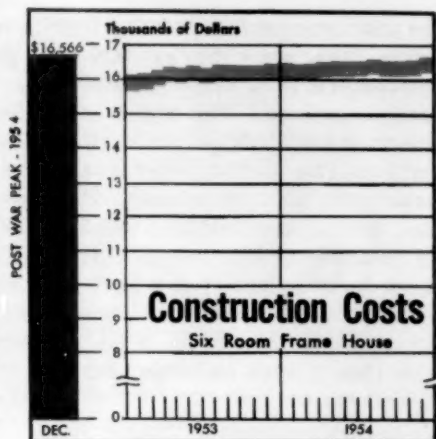
CONSTRUCTION VOLUME

Like real estate taxes, construction volume seems to go on to new heights each year. The dollar volume in 1954 set a new record of more than \$37 billion, and the latest estimates for 1955 forecast a still higher record of \$39.5 billion. Big increases are expected in the dollar volume of the following types of construction: private residential, commercial, religious, educational, hospitals, military facilities, and highways. The outlook is less favorable for industrial construction, farm building, railroad construction, and public housing.



CONSTRUCTION COSTS

Since the flattening of the last inflationary surge touched off by the Korean War, construction costs have been remarkably stable. In 1954 the cost of building our standard six-room frame house rose from \$16,440 to \$16,566, a rise of \$126, or less than 1%. Although we look for little change in 1955, we believe that construction costs will rise instead of fall. The pressure for higher wages will continue, and material prices are creeping up. Moreover, the easy terms now available make price increases more palatable to the purchaser. These factors will lead to slightly higher construction costs in 1955.

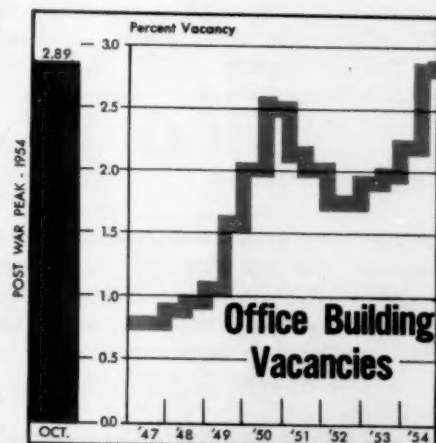


OFFICE BUILDING VACANCIES

Strongly held office buildings are among the finest of investments and will continue to be for as far ahead as we can see. This applies particularly to the older but modernized buildings.

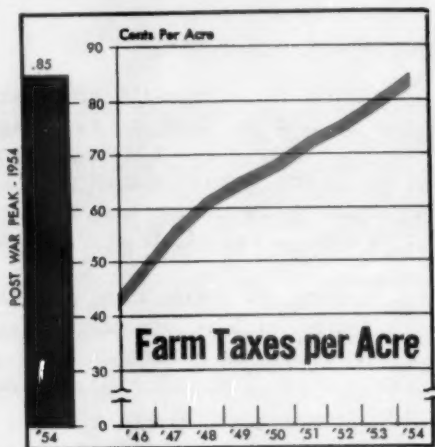
It is inevitable that some office buildings will go into foreclosure. We can't pick them out or even name the cities where they are located, but most of them will be buildings constructed in the 1953-1956 period in cities where rough competition is furnished by other new buildings or modernized old ones.

Other office buildings highly susceptible to failure are the old obsolete buildings that have rocked along through the fat times with a minimum of modernization.



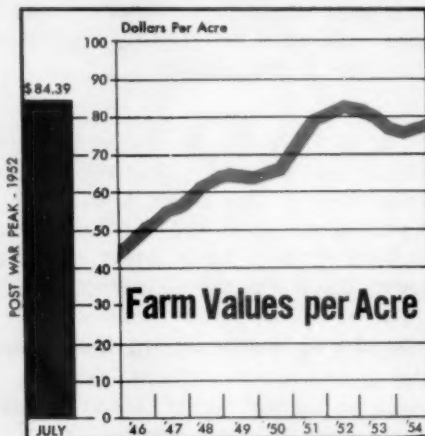
FARM TAXES PER ACRE

The most recent low point in farm taxes was in 1943, when they averaged 38¢ per acre. Since then they have been in a steady rise, and now stand at 85¢ per acre, or 124% above their 1943 level. There will be another increase in 1955, possibly to 90¢. Remember that these taxes are figured on the value of land and buildings. This means that smaller farms have a higher tax per acre because the value of the buildings forms a higher proportion of the total assessed value than it does on larger farms.



FARM VALUES PER ACRE

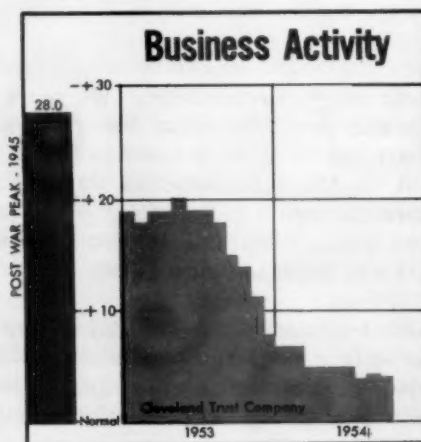
Despite the much-discussed plight of the American Farmer, the drop in farm land values has not been severe. Over the nation as a whole, the decline averaged 7.7%. The average value per acre reached an all-time peak of \$84.39 in July 1952 and declined to \$77.87 by March 1954. The latest figure, November 1954, shows that values have climbed slightly to \$79.26. In 1955 farm land values could go either way, but the change will not be great. Our guess is that they will decline slightly.



BUSINESS ACTIVITY

The confident attitude that bolstered the business outlook through the recent downturn has been reinforced by the decided improvement that occurred in late 1954. All of the signs point to a new surge of prosperity in 1955.

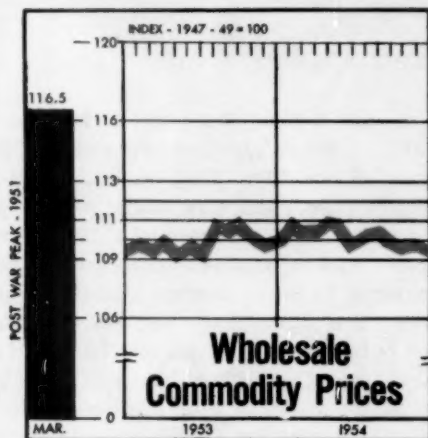
Continued high activity in the construction, steel, and automotive fields will ensure good business in 1955.



WHOLESALE COMMODITY PRICES

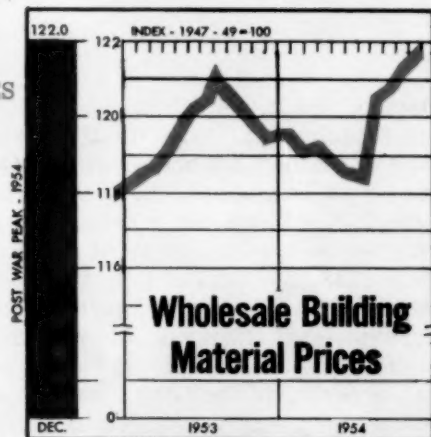
The outlook for wholesale commodity prices in 1955 is about the same as it was a year ago. At that time we commented on the recent stability of the commodity price index and indicated that we expected no startling changes.

Last January the index stood at 110.9 and fell off to 109.5 by December. There is a chance that the index will increase slightly during 1955, but, again, we expect no startling changes.



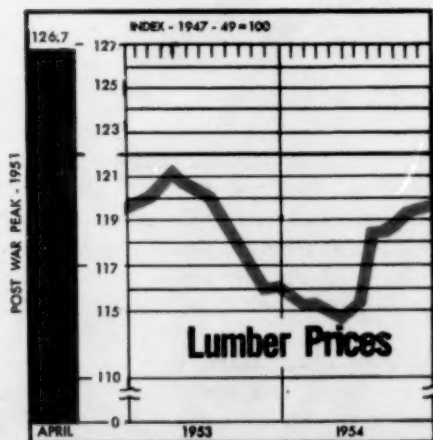
WHOLESALE BUILDING MATERIAL PRICES

The drop of 1.5% in this index during the last half of 1953 was more than regained during 1954. The index now stands at its postwar peak of 122.0. The continued high demand for building materials should forestall any significant price drops, and the chances are decidedly in favor of a slow rise during 1955.



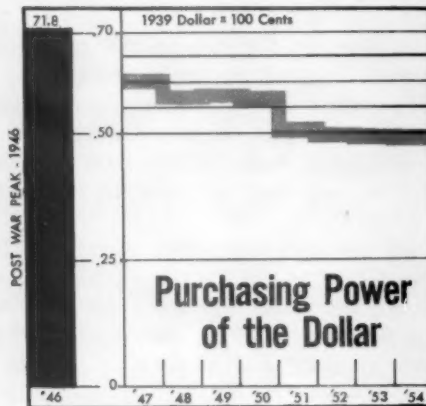
WHOLESALE LUMBER PRICES

Lumber prices have been below their postwar peak for more than 3 years. The wholesale price index reached its peak of 126.7 in September 1951, and spent the next 27 months falling to 116.4 (an 8.1% decline). During 1954 it climbed part way back, and now stands at 119.8. Here, again, we expect no sudden spurts in the index and we can certainly see no reason for significant declines. The chances are that lumber prices will continue to creep up during 1955.



PURCHASING POWER OF THE DOLLAR

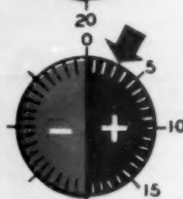
Last year we said that the dollar's value would change very little during 1954, but that the chances were it would gain about two-tenths of a cent. We were partly right - it lost two-tenths of a cent, falling from 51.9¢ to 51.7¢. It looks as if this performance will be roughly duplicated in 1955, and that by year's end the dollar will be worth somewhere between 51.3¢ and 51.5¢.



REAL ESTATE SALES PRICE COMPARISONS IN DEC. 1954



With preceding month
+0.5%



With same month preceding year
+3.0%



With peak (March 1952)
+2.3%



Date	Selling price index*	Probable selling price of a house that sold for \$12,000 in 1947-49 period
1947-49	100.0	\$12,000
Mar. '52	120.9	14,510
Oct. '52	119.4	14,330
Jan. '53	116.6	14,230
May '53	117.6	14,110
Oct. '53	119.7	14,360
Jan. '54	120.9	14,510
May '54	122.6	14,710
Oct. '54	123.1	14,770
Dec. '54	123.7	14,840

*This series will be fully discussed in next month's bulletin.